

## MEMORANDUM

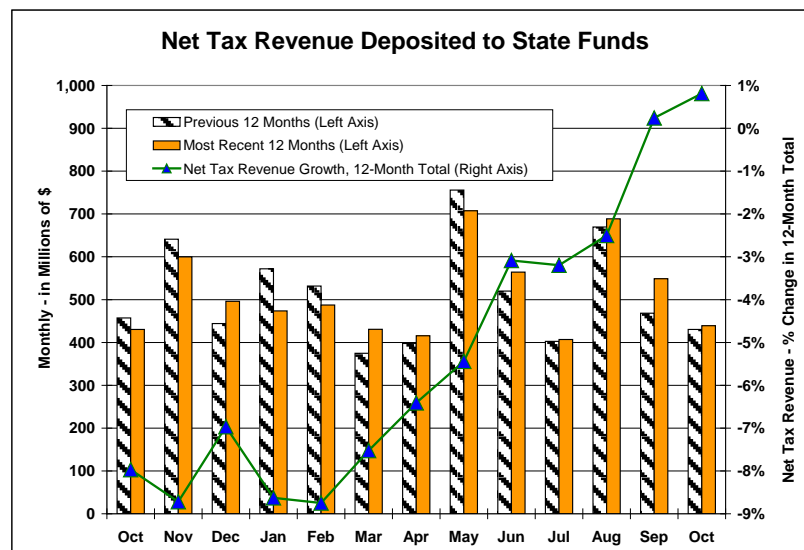
**TO:** Members of the Iowa Senate and  
Members of the Iowa House of Representatives

**FROM:** Jeff Robinson  
Shawn Snyder

**DATE:** November 22, 2010

### Twelve-month Total Net Tax Receipts Through October 31, 2010

The attached spreadsheet presents net tax revenue deposited to State funds for the 12-month period ending October 2010 with comparisons to the previous twelve months. October 2009 to October 2010 one-month comparisons are also presented. The source of the information is the State accounting system, including non-General Fund accounts. All accounting transactions related to taxes remitted to the State were reviewed, along with the refunds issued against those taxes.



### Overview of Current Situation

At \$439.0 million, October 2010 net tax revenue was 2.0% above last October but was below October 2008, October 2007, and was essentially equal to October 2006. The 12-month growth rate continues to improve since reaching its lowest level in February and now stands at positive 0.8%. At \$6.258 billion, annual revenue is about equal to a level first achieved 40 months ago (July 2007 = \$6.275 billion), and is currently 7.4% below the November 2008 net revenue peak.

## Month of October Comparison

October net tax receipts totaled \$439.0 million, an increase of \$8.5 million (2.0%) compared to October 2009. Major taxes and their contribution to the month's change include:

- Individual Income Tax (positive \$15.2 million, 7.7%) – About \$9.0 million of the increase this October was due to a deposit timing shift and this will reverse in November.
- Sales/Use Tax (positive \$6.2 million, 5.5%)
  - Road Use Tax Fund use tax/fees for new registrations were flat for the month.
  - Gross General Fund sales/use net tax receipts increased \$6.2 million with 3.5% growth in gross revenues and some decline in the amount of tax refunds issued this October.
- Corporate Income Tax (negative \$0.9 million, - 4.6%) – Gross corporate income tax receipts decreased \$2.9 million with much of that decrease offset by lower corporate tax refunds.
- Fuel Tax (positive \$1.0 million, 2.6%) – Increased gross receipts and decreased refunds contributed to the October gain.
- Cigarette and Tobacco Taxes (negative \$0.4 million, - 2.3%)
- Gambling Tax (negative \$5.8 million, - 20.9%) – Gambling tax revenue is typically deposited on Thursdays and the decrease was due to this October's four Thursdays compared to October 2009's five. This offset a similar sized increase experienced in September.

## Year-over-Year Comparison – Net Tax Revenue

During the 12-month period ending October 2010, net revenue from all taxes deposited to State funds totaled \$6.258 billion, an increase of \$50.4 million (0.8%) compared to the prior 12 months. Major contributors to the year-over-year dollar and percentage changes include:

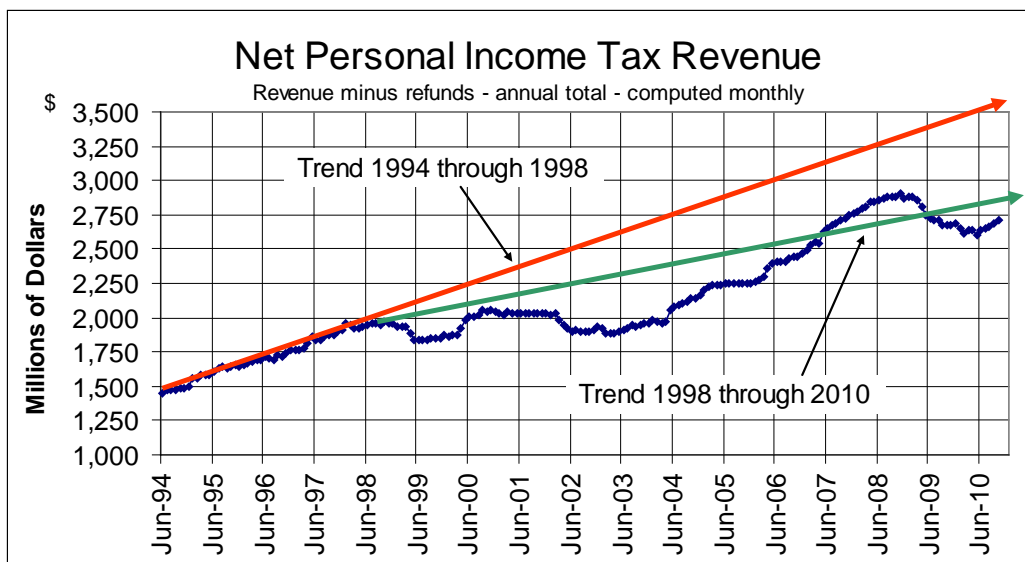
- Individual Income Tax (positive \$25.4 million, 0.9%) – The rate of growth in individual income tax receipts continues to improve.
- Sales/Use Tax (positive \$41.6 million, 2.0%) – The annual rate of growth in net sales/use tax revenue has not been this high since February 2009.
- Corporate Income Tax (negative \$8.4 million, - 3.6%) – Annual corporate tax revenue has been flat for the past 12 months.
- Fuel Tax (negative \$2.4 million, - 0.5%) – According to Department of Revenue fuel sales reports, over the most recent 12-month period, Iowa taxable gasoline/ethanol gallons sold increased 1.9% while taxable diesel sales increased 2.8%. Although up year-over-year, taxable diesel sales over the most recent 12-month period are still 7.3% less than the March 2008 peak sales level.
- Gambling Tax (negative \$11.2 million, - 3.9%) – According to Racing and Gaming Commission statistics, 10 of Iowa's 17 casino/track locations reported negative annual adjusted gross revenue (AGR) growth for the 12-month period ending October 2010, and the AGR growth for all 17 facilities was negative 2.1% over the period.
- Cigarette and Tobacco Tax (positive \$0.8 million, 0.3%)
- Insurance Premium Tax (positive \$17.5 million, 21.8%) – The increase is likely the result of fewer redemptions of tax credit certificates compared to last year.

## Tax Spotlight – Individual Income Tax

Iowa individual income is taxed under the authority of Iowa Code Chapter 422, Division II. The Iowa individual income tax is imposed on Iowa taxable income of individuals, estates, and trusts. Couples with a combined net income of less than \$13,500 (\$9,000 for single taxpayers) are not generally required to pay Iowa income tax or submit an Iowa income tax return. This “filing threshold” does not apply to taxpayers claimed as dependants on another tax return. Iowa uses federal adjusted gross income as the initial point for tax calculation.

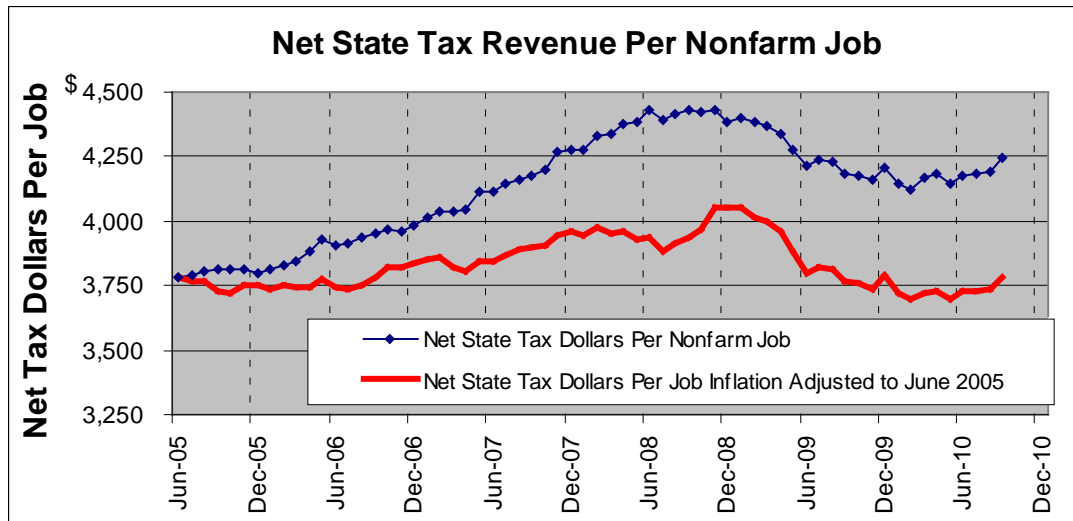
The Iowa individual income tax was first imposed in 1934 with a minimum marginal rate of 1.0% and a maximum marginal rate of 5.0% (HF 1 - Income, Corporation, and Sales Tax Act). The current tax rates were established in 1998 (HF 388 – Individual Income Tax Rates Act) and are applied to nine taxable income brackets ranging from a minimum marginal tax rate of 0.36% and a maximum marginal tax rate of 8.98%. The income brackets are adjusted each year by the Department of Revenue based on an inflation calculation. For the 2010 tax year, the maximum marginal tax rate applies to taxable income above \$64,260. Taxpayers deduct 100.0% of federal income tax paid when calculating taxable income. An alternative minimum tax may be imposed at an effective rate of 6.7% if it exceeds the individual, estate, or trust’s regular tax liability.

There are a large number of tax credits that may provide a reduction in individual income tax. A list is located at <http://www.iowa.gov/tax/taxlaw/Taxcredits.pdf>. Individual income tax returns are filed by the last day of the fourth month following the end of the tax year (April 30). In some cases, individuals may be required to remit quarterly estimated tax payments. Withholding tax is due semimonthly, monthly, or quarterly, depending on the total amount of income tax withheld by the employer. In general, individual income tax revenues are deposited in the State General Fund. Pursuant to Iowa Code Section 422.16A, \$4.0 million from withholding tax is deposited in the Workforce Development Fund each year. The requirement that withholding tax receipts of \$2.6 million annually be credited to the Child Care Credit Fund was repealed in HF 811 (Department of Human Services Appropriations Act) during the 2009 Legislative Session.



## Tax Revenue and Employment

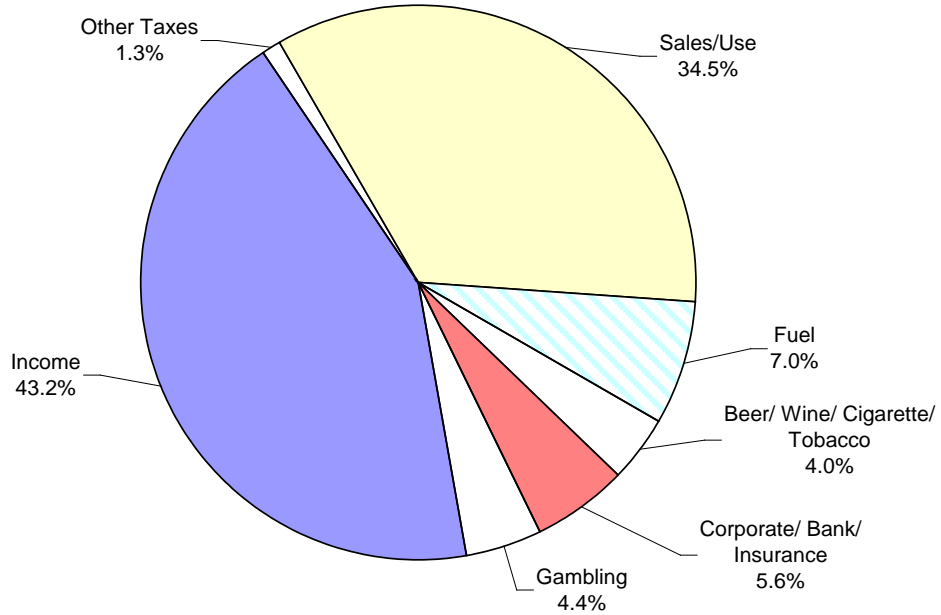
The average reading for Iowa nonfarm employment over the 12 months ending September 2010 is 1,471,100, and net State tax receipts over the same twelve months totaled \$6.250 billion, or \$4,248 per nonfarm job. This is \$464 (12.2%) higher than the per-job average for the twelve months ending July 2005. Over that same time period, inflation (CPI-U) increased 12.3%. Therefore, tax revenue per job has slightly trailed the rate of inflation since July 2005. The following chart provides a historical perspective of tax collections per nonfarm job and inflation-adjusted tax collections per job.



## Net State Tax Revenue - Twelve Months Ending October 2010

**Net Revenue = \$6.258 Billion**

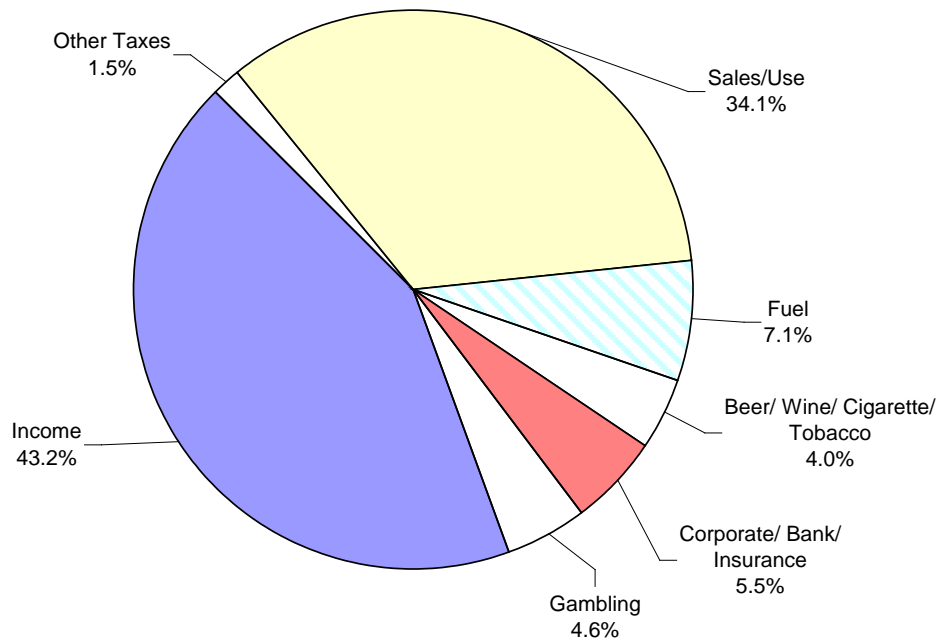
Percentages may not add to 100% due to rounding



## Net State Tax Revenue - Twelve Months Ending October 2009

**Net Revenue = \$6.208 Billion**

Percentages may not add to 100% due to rounding



## Net Tax Revenue Deposited to State Funds - Cash Basis

Dollars in millions - Columns and Rows may not add due to rounding

<b>Net Tax by Tax Type</b>	<b>Previous 12-Month Period Total</b>	<b>Most Recent 12-Month Period Total</b>	<b>12-Month \$ Change</b>	<b>12-Month % Change</b>	<b>Month of October 2009</b>	<b>Month of October 2010</b>	<b>October \$ Change</b>	<b>October % Change</b>
Banking	\$ 26.8	\$ 28.1	\$ 1.3	4.9%	\$ 1.2	\$ 1.2	\$ 0.0	0.0%
Beer & Wine	21.1	21.1	0.0	0.0%	1.8	1.7	- 0.1	-5.6%
Cigarette & Tobacco	229.0	229.8	0.8	0.3%	17.4	17.0	- 0.4	-2.3%
Corporate Income	232.5	224.1	- 8.4	-3.6%	19.6	18.7	- 0.9	-4.6%
Fuel	441.0	438.6	- 2.4	-0.5%	38.1	39.1	1.0	2.6%
Gambling	287.5	276.3	- 11.2	-3.9%	27.7	21.9	- 5.8	-20.9%
Individual Income	2,680.1	2,705.5	25.4	0.9%	196.9	212.1	15.2	7.7%
Inheritance	70.3	62.4	- 7.9	-11.2%	10.0	5.1	- 4.9	-49.0%
Insurance	80.3	97.8	17.5	21.8%	0.0	0.0	0.0	--
Other Taxes	10.5	4.7	- 5.8	-55.2%	3.5	1.9	- 1.6	-45.7%
Real Estate Transfer	13.8	13.3	- 0.5	-3.6%	1.1	0.9	- 0.2	-18.2%
Sales/Use	2,115.2	2,156.8	41.6	2.0%	113.2	119.4	6.2	5.5%
<b>Total Net Taxes</b>	<b>\$ 6,208.1</b>	<b>\$ 6,258.5</b>	<b>\$ 50.4</b>	<b>0.8%</b>	<b>\$ 430.5</b>	<b>\$ 439.0</b>	<b>\$ 8.5</b>	<b>2.0%</b>
<b>Gross Tax &amp; Refunds</b>								
Gross Tax	\$ 7,484.3	\$ 7,498.7	\$ 14.4	0.2%	\$ 495.9	\$ 498.2	\$ 2.3	0.5%
Tax Refunds	\$ - 1,276.3	\$ - 1,240.3	\$ 36.0	-2.8%	\$ - 65.4	\$ - 59.1	\$ 6.3	-9.6%
<b>Net Tax Receipts by Fund</b>								
State General Fund (GF)	\$ 5,272.0	\$ 5,269.5	\$ - 2.5	0.0%	\$ 346.6	\$ 352.1	\$ 5.5	1.6%
Road Use Tax Fund	\$ 699.3	\$ 699.1	\$ - 0.2	0.0%	\$ 62.9	\$ 63.9	\$ 1.0	1.6%
Non-GF Gambling	\$ 219.8	\$ 272.5	\$ 52.7	24.0%	\$ 16.8	\$ 20.5	\$ 3.7	22.0%
Other State Funds	\$ 16.8	\$ 17.4	\$ 0.6	3.6%	\$ 4.2	\$ 2.6	\$ - 1.6	-38.1%
<b>Local Option Taxes *</b>	<b>\$ 810.3</b>	<b>\$ 779.0</b>	<b>\$ - 31.3</b>	<b>-3.9%</b>	<b>\$ 54.0</b>	<b>\$ 54.7</b>	<b>\$ 0.7</b>	<b>1.3%</b>

\* Sales, income, and hotel/motel. Distributed to local governments - not included in numbers above.

Numbers are rounded to the nearest \$0.1 million. Percentages are calculated after rounding.

## Tax Categories Used in Table

**Franchise (Bank) Tax:** Taxes on banks are deposited in the State General Fund. State credit union tax is included on this line also.

**Beer & Liquor Tax:** Taxes on beer, liquor, and wine are deposited in the State General Fund, the Liquor Control Fund, and a small amount is deposited in a Department of Economic Development fund for wine promotion.

**Cigarette & Tobacco Tax:** Cigarette and the tobacco products tax revenue is deposited in the State General Fund.

**Corporate Income Tax:** All corporate income tax is deposited in the State General Fund.

**Motor Vehicle Fuel Tax:** All motor vehicle fuel tax is deposited in one of two road use funds, with the exception of tax revenue from the sale of aviation and marine fuels.

**Gambling Tax:** Gambling tax is deposited in several State funds, including \$66.0 million per year to the State General Fund. Other funds receiving deposits of gambling tax revenue over the last 24 months include the School Infrastructure Fund, the Rebuild Iowa Infrastructure Fund, the Gambler's Assistance Fund, the County Endowment Fund, the Vision Iowa Fund, and the Revenue Bonds Debt Service Fund.

**Individual Income Tax:** Most individual income tax revenue is deposited in the State General Fund. A total of \$4.0 million per year is deposited in the Workforce Development Fund. An annual \$2.6 million diversion to the Child Daycare Fund ended in FY 2009. In addition, several economic development programs are financed by individual income tax withholding. In those instances, the employer does not remit the tax withheld from employees and it is never deposited in a State fund. That revenue is not included here.

**Inheritance Tax:** All inheritance tax is deposited in the State General Fund.

**Insurance Premium Tax:** All insurance premium tax is deposited in the State General Fund.

**Other Taxes:** Other taxes include brucellosis eradication property tax (deposited in a Department of Agriculture and Land Stewardship fund), drug stamp tax (State General Fund), utility replacement property tax (State General Fund), and car rental tax (Road Use Tax Fund). Other taxes also include a suspense account used to hold tax deposits prior to determining the correct tax type for the money and tax revenue transferred by the Department of Revenue to separate accounts to fund tax collection activities (tax gap and Department operations).

**Real Estate Transfer Tax:** Real estate transfer tax is collected by counties. Counties retain 17.25% and remit the remainder to the State. The State deposits 90.0% in the State General Fund, 5.0% in the Housing Trust Fund, and 5.0% in the Shelter Assistance Fund. The distribution of real estate transfer tax revenue changed in FY 2010, when the State General Fund percentage began a decline to 65.0% by FY 2015.

**Sales/Use Tax:** General sales/use tax is deposited in the State General Fund, while most vehicle use tax is deposited in the Road Use Tax Fund. Beginning FY 2009, the vehicle use tax is now referred to as a fee in the Iowa Code. To allow continuity of data, the revenue from the fee is reflected in this document as tax revenue. Also beginning FY 2009, the School Infrastructure Local Option (SILO) sales tax was converted to a statewide 1.0% sales/use tax and the revenue from that statewide tax is transferred out of the State General Fund monthly through a refund appropriation. To allow for continuity of data, the refund transfers are subtracted from State revenue as part of the net sales/use tax calculation.

**Local Option Taxes:** Local option taxes are presented at the bottom of the table and are not included in the numbers above. Prior to FY 2009, local option taxes included the SILO tax, Local Option Sales Tax (LOST) for local government finance, Local Option Income Surcharge for schools, and hotel/motel tax. Beginning FY 2009, the SILO tax was converted to a 1.0% statewide tax and the SILO was eliminated. To allow for continuity of data, the transfers from the State General Fund as a result of the 1.0% statewide tax are included in the local option tax amount.

## Report Database

The database for this report is the State accounting system. If transactions are incorrectly coded in the system as tax revenue or tax refunds, the numbers presented here will be impacted.